



KP TISSUE INC.

AUDITED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018



Independent auditor's report

To the Shareholders of KP Tissue Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. (the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of comprehensive income (loss) for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the KP Tissue Inc. and Kruger Products L.P. Management's Discussion and Analysis of Results of Operations and Financial Position, which we obtained prior to the date of this auditor's report and the information, other than the financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Neil Manji.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2020

KP Tissue Inc.

Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2019 \$	Restated (note 13) December 31, 2018 \$	Restated (note 13) January 1, 2018 \$
Assets			
Current assets			
Distributions receivable	1,733	1,694	1,658
Receivable from Partnership	247	269	-
Income taxes recoverable	-	230	826
	1,980	2,193	2,484
Non-current assets			
Investment in associate (note 6)	81,052	99,421	94,952
Total assets	83,032	101,614	97,436
Liabilities			
Current liabilities			
Dividend payable (note 8)	1,733	1,694	1,658
Payable to Partnership	-	-	52
Current portion of advances from Partnership (note 7)	80	-	309
Income tax payable	944	-	-
	2,757	1,694	2,019
Non-current liabilities			
Advances from Partnership (note 7)	-	269	731
Deferred income taxes (note 7)	3,158	3,634	515
Total liabilities	5,915	5,597	3,265
Equity			
Common shares (note 8)	18,997	17,090	15,014
Contributed surplus	144,819	144,819	144,819
Deficit	(100,696)	(82,269)	(77,706)
Accumulated other comprehensive income	13,997	16,377	12,044
Total equity	77,117	96,017	94,171
Total liabilities and equity	83,032	101,614	97,436
Subsequent events (note 8)			

Approved by the Board of Directors

/s/ James Hardy
Director

/s/ Michael Korenberg
Director

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.
Statement of Comprehensive Income (Loss)
For the years ended December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share and per share amounts)

	2019	2018
	\$	\$
Equity income (loss) (note 6)	(5,375)	1,390
Dilution gain (note 8)	574	196
Income (loss) before income taxes	(4,801)	1,586
Income taxes (note 7)	1,727	1,759
Net loss for the year	(6,528)	(173)
Other comprehensive income (loss)		
net of tax expense (recovery) (note 9)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(4,769)	2,334
Remeasurements of post-retirement benefits	(200)	776
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(2,380)	4,333
Total other comprehensive income (loss) for the year	(7,349)	7,443
Comprehensive income (loss) for the year	(13,877)	7,270
Basic loss per share	(0.68)	(0.02)
Weighted average number of shares outstanding	9,542,384	9,319,683

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Statement of Changes in Equity

For the years ended December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2018 Restated (note 13)	9,212,913	15,014	144,819	(77,706)	12,044	94,171
KPT's portion of KPLP change in accounting policy IFRS 15 (note 4)	-	-	-	(748)	-	(748)
Restated total equity as of January 1, 2018	9,212,913	15,014	144,819	(78,454)	12,044	93,423
Issuance of common shares (note 8)	196,294	2,040	-	-	-	2,040
Dividends payable (note 8)	-	-	-	(1,694)	-	(1,694)
Dividends paid (note 8)	-	-	-	(5,022)	-	(5,022)
Fair value adjustment	-	36	-	(36)	-	-
Remeasurements of pensions	-	-	-	2,334	-	2,334
Remeasurements of post-retirement benefits	-	-	-	776	-	776
Cumulative translation adjustment	-	-	-	-	4,333	4,333
Net loss for the year	-	-	-	(173)	-	(173)
As of December 31, 2018 Restated (note 13)	9,409,207	17,090	144,819	(82,269)	16,377	96,017
As of January 1, 2019 Restated (note 13)	9,409,207	17,090	144,819	(82,269)	16,377	96,017
Issuance of common shares (note 8)	216,946	1,853	-	-	-	1,853
Dividends payable (note 8)	-	-	-	(1,733)	-	(1,733)
Dividends paid (note 8)	-	-	-	(5,143)	-	(5,143)
Fair value adjustment	-	54	-	(54)	-	-
Remeasurements of pensions	-	-	-	(4,769)	-	(4,769)
Remeasurements of post-retirement benefits	-	-	-	(200)	-	(200)
Cumulative translation adjustment	-	-	-	-	(2,380)	(2,380)
Net loss for the year	-	-	-	(6,528)	-	(6,528)
As of December 31, 2019	9,626,153	18,997	144,819	(100,696)	13,997	77,117

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Statement of Cash Flows

For the years ended December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars)

	2019 \$	2018 \$
Cash flows from (used in) operating activities		
Net loss for the year	(6,528)	(173)
Items not affecting cash		
Equity (income) loss	5,375	(1,390)
Dilution gain	(574)	(196)
Income taxes	1,727	1,759
Total items not affecting cash	6,528	173
Net change in non-cash working capital (note 11)	189	-
Tax refunds	-	462
Advances received	-	274
Advances paid	(189)	(736)
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	4,984	4,640
Net cash from investing activities	4,984	4,640
Cash flows used in financing activities (note 12)		
Dividends paid (note 8)	(4,984)	(4,640)
Net cash used in financing activities	(4,984)	(4,640)
Increase (decrease) in cash and cash equivalents during the year	-	-
Cash and cash equivalents - Beginning of year	-	-
Cash and cash equivalents - End of year	-	-

The accompanying notes are an integral part of these financial statements.

KP Tissue Inc.

Notes to Financial Statements

December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

1 General information

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of December 31, 2019, the Corporation held a 15.2% (December 31, 2018 – 15.8%) interest in Kruger Products L.P. (KPLP or the Partnership), whose principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

2 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. The financial statements have been prepared using the historical cost convention. The financial statements were approved by the board of directors on March 11, 2020.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Investments in associates

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of comprehensive income (loss) and its share of other comprehensive income (loss) of associates included in other comprehensive income (loss).

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of comprehensive income (loss).

The Corporation assesses at each year-end whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of comprehensive income (loss).

(b) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it

KP Tissue Inc.
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December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

(c) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(d) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

(e) Accounting standards issued but not yet applied

- (i) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

KP Tissue Inc.

Notes to Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

4 KPT's portion of KPLP change in accounting policy

KPLP adopted IFRS 15, Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the consolidated financial statements of KPLP. The application of IFRS 15 resulted in a change in KPLP's revenue recognition related to dispensers and related revenue. KPLP recorded a transitional adjustment of \$6.3 million in the deficit, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017. KPT's portion of KPLP's transitional adjustment was \$0.7 million, net of tax, and was recognized in KPT's deficit on January 1, 2018.

KPLP adopted IFRS 16, Leases on January 1, 2019 using the full retrospective approach. The adoption of this standard had a significant impact on the consolidated financial statements of KPLP. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. The right-of-use asset and lease liability were material to the consolidated statement of financial position of KPLP. There was no material impact on KPLP's net income or cash flow. KPLP recorded a transitional adjustment at January 1, 2019, on adoption of IFRS 16. Accordingly, KPT has recorded a portion of KPLP's transitional adjustment at January 1, 2019 (refer to note 13 for additional information).

5 Critical accounting estimates and judgments

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the dates of the statement of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates and judgements, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

Equity method of accounting

The equity method of accounting is being applied by the Corporation as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of the Corporation. Based on the Corporation having three of nine seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

Impairment test

The Corporation is required to perform an impairment test on its investment in KPLP if there is objective evidence that the investment may be impaired. Under IFRS, the Corporation did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the investment may be impaired.

Partnership units

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

Income taxes

The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

6 Investment in associate

Changes in the carrying amount of the investment were as follows:

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Opening balance	99,421	94,952
KPT's portion of KPLP change in accounting policy IFRS 15 (note 4)	-	(1,010)
Investment in associate	1,853	2,040
Share of income	325	7,208
Depreciation of fair value increments	(5,700)	(5,818)
Share of other comprehensive income (loss)	(8,545)	8,878
Dilution gain	574	196
Tax Distribution	-	(309)
Partnership unit distributions	(6,876)	(6,716)
Closing balance	<u>81,052</u>	<u>99,421</u>

The equity income (loss) was comprised of the following components:

	2019	2018
	\$	\$
Share of income	325	7,208
Depreciation of fair value increments	(5,700)	(5,818)
	<u>(5,375)</u>	<u>1,390</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 15.2% interest as of December 31, 2019 (December 31, 2018 – 15.8%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2019. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

	December 31, 2019		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	382,009	-	382,009
Non-current assets	1,241,602	426,181	1,667,783
Liabilities to non-unitholders	1,175,294	-	1,175,294
Partnership units liability	143,515	-	143,515
Net assets	304,802		

	Year ended December 31, 2019
	\$
Revenue	1,434,113
Net income	2,098
Other comprehensive loss	(51,570)
Total comprehensive loss	(49,472)

	Restated (notes 4 and 13) December 31, 2018		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	505,032	-	505,032
Non-current assets	1,091,286	466,047	1,557,333
Liabilities to non-unitholders	1,112,983	-	1,112,983
Partnership units liability	116,524	-	116,524
Net assets	366,811		

	Year ended December 31, 2018
	\$
Revenue	1,370,432
Net income	45,406
Other comprehensive income	50,505
Total comprehensive income	95,911

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

			Restated (notes 4 and 13)
			January 1, 2018
	KPLP basis of	FV increment	KPT basis of
	accounting		accounting
	\$	\$	\$
Current assets	322,469	-	322,469
Non-current assets	1,073,962	497,088	1,571,050
Liabilities to non-unitholders	935,918	-	935,918
Partnership units liability	160,309	-	160,309
Net assets	300,204		

The following shows the reconciliation of KPT's portion of KPLP equity to the investment recorded in KPT:

	December 31, 2019	Restated (note 13)
	\$	December 31, 2018
	\$	\$
KPLP consolidated equity	304,802	366,811
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(283,700)	(333,030)
Equity pertaining to KPT	139,664	152,343
Investment in associate recorded in KPT	81,052	99,421
Reconciling difference	58,612	52,922
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	43,147	37,447
Currency translation adjustment in fair value increments	(3,362)	(3,926)
Tax Distribution	3,875	3,875
Gain on exercise of over-allotment option	(375)	(375)
Dilution gain	(1,563)	(989)
Impairment in investment in associate	28,000	28,000
	-	-

With respect to KPT's investment in KPLP, the liability of KPT for the debts, liabilities and other obligations of KPLP is limited to KPT's capital contribution to KPLP.

On January 15, 2019, April 15, 2019, July 15, 2019, and October 15, 2019, in connection with the Corporation Distribution Reinvestment Plan (DRIP), the portion of the distributions received by the shareholders was used to acquire an additional 216,946 units of KPLP for proceeds of \$1.9 million (note 8).

Impairment test

Under IFRS, the Corporation did not perform an impairment test at December 31, 2019, as there were no events or changes in circumstances to indicate that the investment may be impaired.

7 Income taxes

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking the temporary

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

The major components of income taxes recognized in the statement of comprehensive income (loss) were as follows:

	2019	2018
	\$	\$
Current tax expense	1,007	75
Deferred tax expense	720	1,684
	<u>1,727</u>	<u>1,759</u>

Details of the provision for income taxes were as follows:

	2019	2018
	\$	\$
Income tax at statutory rate of 26%	(1,248)	412
Permanent differences and other	28	64
Dilution gain	(149)	(51)
Taxed in hands of subsidiaries	287	593
Realization of previously unrecognized tax attributes	1,698	1,895
Change in basis of investment in associate	1,111	(1,154)
	<u>1,727</u>	<u>1,759</u>

Components of the deferred income tax liability were as follows:

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(965)	(968)
Pensions	(366)	(253)
Partnership units liability	(1,953)	(890)
Property, plant and equipment	6,818	5,995
Other	(376)	(250)
	<u>3,158</u>	<u>3,634</u>

The analysis of the deferred tax liability were as follows:

	December 31, 2019	Restated (note 13) December 31, 2018
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	3,158	3,634
	<u>3,158</u>	<u>3,634</u>

In addition to the above, the Corporation has a deferred tax asset of \$6.4 million (December 31, 2018 - \$4.2 million) related to the Investment in associate which has not been recognized in the financial statements for the year ended December 31, 2019.

KP Tissue Inc.
Notes to Financial Statements
December 31, 2019 and December 31, 2018

(tabular amounts are in thousands of Canadian dollars, except share amounts)

The movement in the deferred tax liability was as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Opening balance	3,634	515
Charge to net loss	720	1,684
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(355)	647
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(128)	420
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(713)	368
	<u>3,158</u>	<u>3,634</u>

On December 13, 2012, in connection with the issuance of Partnership units to KPT, Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partners is entitled to its share of the Tax Distribuion made in respect of any given year.

On February 28, 2018, KPT received a Tax Distribution of \$0.3 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2017. The Tax Distribution was used to partially settle the advances to KPT recorded during the year ended December 31, 2017. The excess advance over KPT's portion of the Tax Distribution, in the amount of \$0.7 million, was repaid by KPT to KPLP during the year ended December 31, 2018. During the year ended December 31, 2018, KPT received an advance from KPLP of \$0.3 million. The advance in the amount of \$0.2 million was repaid by KPT to KPLP during the year ended December 31, 2019. The remaining advance in the amount of \$0.1 million was repaid by KPT to KPLP by offsetting the Tax Distribution received on February 28, 2020.

KPT incurred a loss for tax purposes for the year ended December 31, 2018 and as a result no Tax Distribution was declared on February 28, 2019. As a result of the 2018 loss for tax purposes, KPT is not required to pay monthly tax instalments and as a result did not require any advances from KPLP during the year ended December 31, 2019.

On February 28, 2020, KPT received a Tax Distribution of \$0.8 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2019, and to settle the outstanding advance as described above.

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8 Dividends

During the years ended December 31, 2019 and December 31, 2018, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing common shares. The proceeds were used to acquire additional units of KPLP. The dividends paid, the additional common shares issued at the share price, and the gross proceeds were as follows:

				2019
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2019	1,694	8.36	65,308	546
April 15, 2019	1,705	8.70	48,921	426
July 15, 2019	1,714	8.16	53,328	435
October 15, 2019	1,724	9.04	49,389	446
	<u>6,837</u>		<u>216,946</u>	<u>1,853</u>
				2018
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2018	1,658	13.50	38,122	514
April 16, 2018	1,665	10.70	47,482	508
July 16, 2018	1,674	9.72	50,670	493
October 15, 2018	1,683	8.74	60,020	525
	<u>6,680</u>		<u>196,294</u>	<u>2,040</u>

On January 15, 2020, the Corporation paid a dividend of \$1.7 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 34,545 common shares at a price of \$9.84.

Subsequent to December 31, 2019, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on April 15, 2020.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.6 million was recorded during the year ended December 31, 2019 (year ended December 31, 2018 - \$0.2 million).

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9 Income tax recovery (expense) on other comprehensive income (loss)

Income tax recovery (expense) on other comprehensive income (loss) were as follows:

	2019	2018
	\$	\$
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(5,482)	2,702
Income tax recovery (expense)	713	(368)
Net of income tax recovery (expense)	(4,769)	2,334
Remeasurements of post-retirement benefits	(328)	1,196
Income tax recovery (expense)	128	(420)
Net of income tax recovery (expense)	(200)	776
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	(2,735)	4,980
Income tax recovery (expense)	355	(647)
Net of income tax recovery (expense)	(2,380)	4,333
Total other comprehensive income (loss) for the year	(7,349)	7,443

10 Economic dependence

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in the Partnership, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on the Partnership and exposed to all the risks associated with the business of the Partnership, including, but not limited to, liquidity risk.

11 Non-cash working capital

The change in non-cash working capital on the statement of cash flows comprised the following:

	2019	2018
	\$	\$
Decrease (increase) in receivable from the Partnership	22	(269)
Decrease in income taxes	167	321
Decrease in payable to Partnership	-	(52)
	189	-

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(tabular amounts are in thousands of Canadian dollars, except share amounts)

12 Cash flows used in financing activities

The change in financing activities on the statement of cash flows comprised the following:

	Dividend payable \$	Common shares \$	Total \$
As of January 1, 2018	1,658	15,014	16,672
Dividends paid	(6,680)	2,040	(4,640)
Movements not in financing activities	6,716	36	6,752
As of December 31, 2018	1,694	17,090	18,784
As of January 1, 2019	1,694	17,090	18,784
Dividends paid	(6,837)	1,853	(4,984)
Movements not in financing activities	6,876	54	6,930
As of December 31, 2019	1,733	18,997	20,730

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13 IFRS 16 Transition reconciliation

The following are reconciliations from the previous lease recognition guidance in IAS 17, to the new standard on leases, IFRS 16, adopted January 1, 2019. Reconciliations are provided for the statement of financial position at December 31, 2018 and January 1, 2018. Refer to note 4 for additional information.

	December 31, 2018			January 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Distributions receivable	1,694	-	1,694	1,658	-	1,658
Receivable from Partnership	269	-	269	-	-	-
Income taxes recoverable	230	-	230	826	-	826
	<u>2,193</u>	<u>-</u>	<u>2,193</u>	<u>2,484</u>	<u>-</u>	<u>2,484</u>
Non-current assets						
Investment in associate	103,143	(3,722)	99,421	98,674	(3,722)	94,952
Total assets	<u>105,336</u>	<u>(3,722)</u>	<u>101,614</u>	<u>101,158</u>	<u>(3,722)</u>	<u>97,436</u>
Liabilities						
Current liabilities						
Dividend payable	1,694	-	1,694	1,658	-	1,658
Payable to Partnership	-	-	-	52	-	52
Current portion of advances from Partnership	-	-	-	309	-	309
	<u>1,694</u>	<u>-</u>	<u>1,694</u>	<u>2,019</u>	<u>-</u>	<u>2,019</u>
Non-current liabilities						
Advances from Partnership	269	-	269	731	-	731
Deferred income taxes	4,602	(968)	3,634	1,483	(968)	515
Total liabilities	<u>6,565</u>	<u>(968)</u>	<u>5,597</u>	<u>4,233</u>	<u>(968)</u>	<u>3,265</u>
Equity						
Common shares	17,090	-	17,090	15,014	-	15,014
Contributed surplus	144,819	-	144,819	144,819	-	144,819
Deficit	(79,515)	(2,754)	(82,269)	(74,952)	(2,754)	(77,706)
Accumulated other comprehensive income	16,377	-	16,377	12,044	-	12,044
Total equity	<u>98,771</u>	<u>(2,754)</u>	<u>96,017</u>	<u>96,925</u>	<u>(2,754)</u>	<u>94,171</u>
Total liabilities and equity	<u>105,336</u>	<u>(3,722)</u>	<u>101,614</u>	<u>101,158</u>	<u>(3,722)</u>	<u>97,436</u>